CIAN

French Council of Investors in Africa

2016 Annual report

Foreign private sector in Africa: analysis by French investors

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2016 REPORT / CONTENTS

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Towards an urban Africa

The explosion in Africa's population is well-known, long hoped-for by some and feared by many others. From 1.1 billion inhabitants in 2013, Africa is expected to rise to 2.4 billion in 2050 – 1.3 billion more people in 35 years. To provide food, housing, care and jobs for so many people in so little time is a major challenge. It's up to Africa and to the international community to rise to it. This requires all the development players, businesses, governments, funding agencies and NGOs to concentrate on priority projects and accelerate their completion: do the useful things quickly.

A second phenomenon, linked to the first and with equally important consequences if not more so, is the urban development of the continent. Today, there are 400 million African city-dwellers. They are expected to be 1.2 billion in 2050, a three-fold increase with a progression of 800 million. We will see gigantic cities develop. Currently, three African cities have more than 10 million inhabitants – Lagos, Cairo and Kinshasa – and there are expected to be more than thirty cities in this position in 2050.

To avoid the risk of "urbanized poverty and misery", we will need to – indeed, we will have to – re-invent the African city by devising new models mid-way between the disorganized urban sprawl of today and the ultra-modern projects inspired by Dubai and Singapore.

This is where the private sector comes in, and French businesses in particular: large groups and small-to-medium-sized companies. They can offer real expertise in this area, with considerable know-how in designing clean, innovative towns with low CO2 emissions. It's obviously also a question of working together with planners, architects, builders, specialists in networks and flows, funding agencies and financiers.

We can do it: urban development is a vital need for Africa and an opportunity for French companies. Let's get organized and get going.

Alexandre Vilgrain, Chairman

2015 / Highlights

January

• **Frequent and deadly flooding in Africa** throughout the year: in Malawi in January, Mozambique in February, Sierra Leone in September, in the usually arid region of Tindouf in Algeria in November and in Somalia, Kenya and Egypt, etc.

• **The United Nations secretary general,** Ban Ki-moon supported the African Union's decision (AU) to launch an attack on the terrorist group Boko Haram, which operates in Nigeria, Cameroon, Nigeria and Mali.

• **France and Morocco** re-established their legal co-operation.

• **The president of Zimbabwe, Robert Mugabe,** was appointed as the new president of the AU with a one-year term of office.

• **Senegal** opened its borders with Guinea after closing them for 5 months as part of the fight against the Ebola virus.

February

• **The WHO** reported a total of 22,525 cases of Ebola (suspected, probable and confirmed) and 9,004 deaths in the three affected West-African countries (Guinea, Liberia and Sierra Leone) but the epidemic, which began in December 2013, is gradually fading.

• **The United States** appointed an ambassador to Somalia for the first time since 1991.

March

• **In Nigeria,** Muhammadu Buhari, a northern Muslim, was elected president, replacing Goodluck Jonathan (13.3 million votes), a Christian from the south.

• **The Arab League Heads of State** met in Egypt and announced that they would set up a joint military force to fight against terrorist groups, such as the Islamic State.

April

• **The two former Central African presidents,** François Bozizé and Michel Djotodia, signed the Nairobi agreement in favour of reconciliation.

• **Six months before the United Nations conference** on climate change (COP21), the mayors of the large African cities launched an appeal, particularly in favour of sustainable electricity in Africa, from the town hall in Paris, at the invitation of Anne Hidalgo and Jean-Louis Borloo.

• **The Nigerian Minister for Agriculture,** Akinwumi Adesina, was elected as head of the African Development Bank (ADB).

May

• **5,645 foreigners left South Africa,** as a result of violence against foreigners.

• **An agreement** for peace and reconciliation in Mali was signed at an official ceremony.

June

• **Lionel Zinsou,** a banker and intellectual, left his post as chairman of the French investment fund PAI Partners, to become Prime Minister of Benin. He remains as head of the Africa-France association, sharing the chairmanship with Stéphane Richard, CEO of Orange, since December.

• **PSA's CEO** signed an agreement with Morocco to build a Peugeot and Citroën assembly plant locally.

• **Facebook opened an office in Johannesburg,** the first in Africa.

July

• **The French president François Hollande** carried out a state visit to Benin, Angola and Cameroon.

• **The American president Barack Obama** visited Kenya – his father's native land – for the first time since he came to power in 2009.

• **South Africa** held the Universities of Africa summit meeting which drew up a list of the 30 leading universities on the continent, many of them South African.

• **After years of tension,** the Zimbabwean government decided to return plots of lands confiscated from their white owners.

• **In South Africa,** demand for pay rises in certain sectors continued: miners are asking for up to +67 % and civil servants +10 %.

August

• **President Salva Kiir Mayardit** signed a peace agreement to settle the conflict with Southern Sudan, which had been going on since December 2013.

• **Libyan Prime Minister,** Abdallah al Thinni, resigned.

• **For the first time in nearly 14 years,** the South African rand fell to 13 rands to the dollar.

September

• **The International Cocoa Organization** announced that it was transferring its headquarters to Abidjan.

October

• **Students** in South Africa went on strike against the rise in tuition fees.

• **The Nobel peace prize** was awarded to "Dialogue national tunisien" led by the "Union générale tunisienne du travail" (UGTT) and made up of political parties, unions, employers and representatives of civil society; this initiative has enabled the country to emerge from the political crisis after the fall of Ben Ali.

• **The out-going Ivorian president Alassane Ouattara** was re-elected with 83.66 % of the votes in the first round of the presidential elections.

November

• **Pope Francis toured Kenya,** Uganda and Central Africa.

• **The Prime Minister of Benin,** Lionel Zinsou, was designated as the governing party's candidate for the presidential election in 2016.

• **In Burkina Faso,** two and a half months after a failed attempt to overthrow the government, Roch Marc Kaboré (MPP) was elected in the first round of the presidential election with over 50% of the vote.

COP 21

During COP21 in Paris (30 November-11 December), "Groupe Africa", formed in 2000, pleaded for more financial aid from wealthier countries to pay for the energy transition

D.R.

Growth in Africa:
risks and opportunities for 2016

A slowdown in growth and worldwide trade significantly marked 2015. What has been the impact on African economies and what can we hope for 2016? Thierry Apoteker, of TAC ECONOMICS, provides us with exclusive answers.

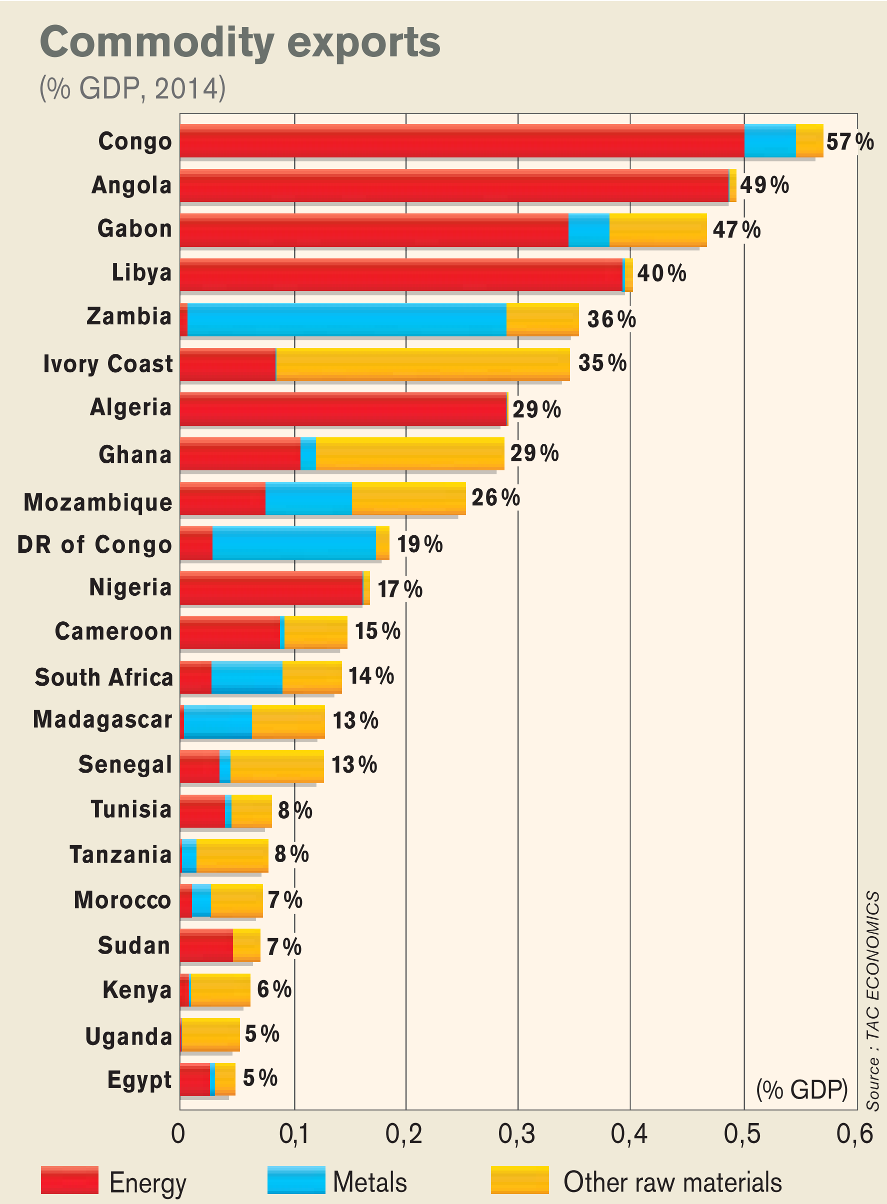
A global environmental and economic performance distinctly less favourable in 2015

The pace of economic growth on the African continent had already slowed significantly after the global financial crisis (the region's GDP grew by an average of 4.7% a year between 2009 and 2014, compared to 6.2% between 2003 and 2008). Since mid-2014, the "headwinds" of the international environment have blown even stronger, with a sharp fall in the price of oil and most of the raw materials exported by Africa, a collapse in demand and international trade in Europe and especially in China, and international tension and financial volatility that have raised the cost of capital that Africa still needs. Combined with domestic difficulties in several countries (political tension, ebola pandemic, infrastructure problems), these international developments have once again influenced the pace of African development, with an average growth in GDP estimated at around 3.6% for 2015, compared to 3.9% in 2014.

At the same time, budget and external account imbalances, partially concealed during the rapid rise in raw material prices, have returned with a vengeance and several countries on the continent have suffered more acute difficulties over the last 18 months, with the IMF returning to the bedside of former success stories such as Ghana, Zambia and, more recently, Mozambique.

It is essential for companies to have a correct reading of these macroeconomic and financial developments and draw the right conclusions in terms of a strategic or "tactical" approach to the African markets in an environment that is no doubt going to remain less favourable over the long term than over the last 15 years! Three key aspects need to be incorporated: (1) Africa is very dependent on raw materials and a fall in world prices mechanically creates pressure on exchange rates, growth and the public accounts; (2) the continent is still enjoying a high rate of growth compared to the rest of the world and long-term factors will continue to drive development; (3) the impact of external factors acts as an indicator of the various countries' capacity for "resilience" or their vulnerability, and this leads to a growing differentiation within the African continent.

Table 1



Great sensitivity to raw material prices, which is differentiated by country

Despite the progress observed in the diversification of the economic fabric in most African countries over the last twenty years, there is still a very high level of dependence on raw materials with regard to maintaining a balance in the currency trading accounts and budget revenues.

Table 1 shows the weight of raw material exports (energy, metals, agricultural products) in the GDP of a broad sample of African countries: only a handful of countries shows ratios below 20% (Egypt, Morocco, Kenya…) while, at the other end of the scale, the ratio for countries such as Angola, Zambia and even the Ivory Coast is above 30%.

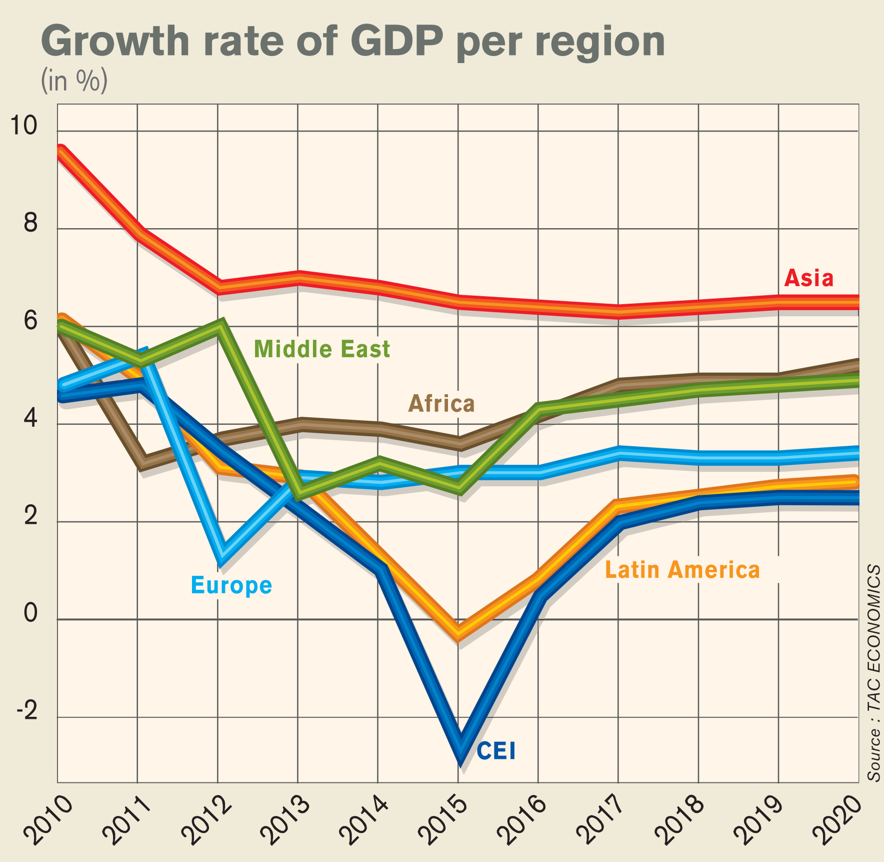
From mid-2014 and throughout 2015, most countries were therefore left to manage the consequences of very sudden external changes with, in the end, only a limited number of possible options, each with an economic, financial or social cost: very quickly adjust public expenditure and imports to limit the damage to the accounts, devalue the currency to compensate, in currency and local revenues, for all or part of the fall in the price of exported products, or look for one-off funding to allow the deficits to run and spread the adjustment over a longer period. In the first case, the impact on the growth of internal activity is heavy and rapid; in the second one, the impact is negative on inflation and therefore on spending power and eventually on growth; in the final option, the consequences are severe for the public accounts, debt and future financial constraints. In reality, African countries have generally mixed the three options, with the exchange rate adjustment for the countries in the free zone assisted by the depreciation of the euro against the dollar.

Africa remains a high growth region in an uncertain global context

The headwinds that have influenced African growth have naturally affected all countries, especially the emerging ones: China is in difficulty, Brazil and Russia in recession. There has been no shortage of bad news for the economies of the developing countries.

In this context, Africa's situation remains attractive in many ways. The annual progression in the activity of the whole continent will still be among the most rapid on the planet in 2016, and current forecasts, including those by international organizations, suggest that it will remain so for the rest of the decade (see **table 2,** illustrating the IMF's latest forecasts).

Table 2



> Africa's relative resilience stems largely from favourable domestic trends

Africa's relative resilience stems largely from favourable domestic trends and the continuing structural transformation of the continent, which may be directly or indirectly linked, firstly, to a favourable long-term demographic trend, with a gradual reduction in the percentage of the "dependent" population (mainly children under 15) compared to those old enough to work, combined with the rapid expansion of the middle classes and the rapid urban development process being experienced by most of the African countries and, secondly, to a process of integration at both a regional level and in terms of international trade.

The key word: differentiation between countries

In this context, the relative consistency of African success over the last decade is at an end. Countries' differentiated assets, their ability to adapt and their flexibility (financial and cyclical) and the quality of economic governance will now act as major "differentiators" within the continent. Considering the short-term challenges that the international environment has brought to light, the key components of the risk analysis concern, firstly, the degree and intensity of the imbalances in the external and public accounts and, secondly, currency liquidity and the development of exchange rates. **Tables 3**

Table 3

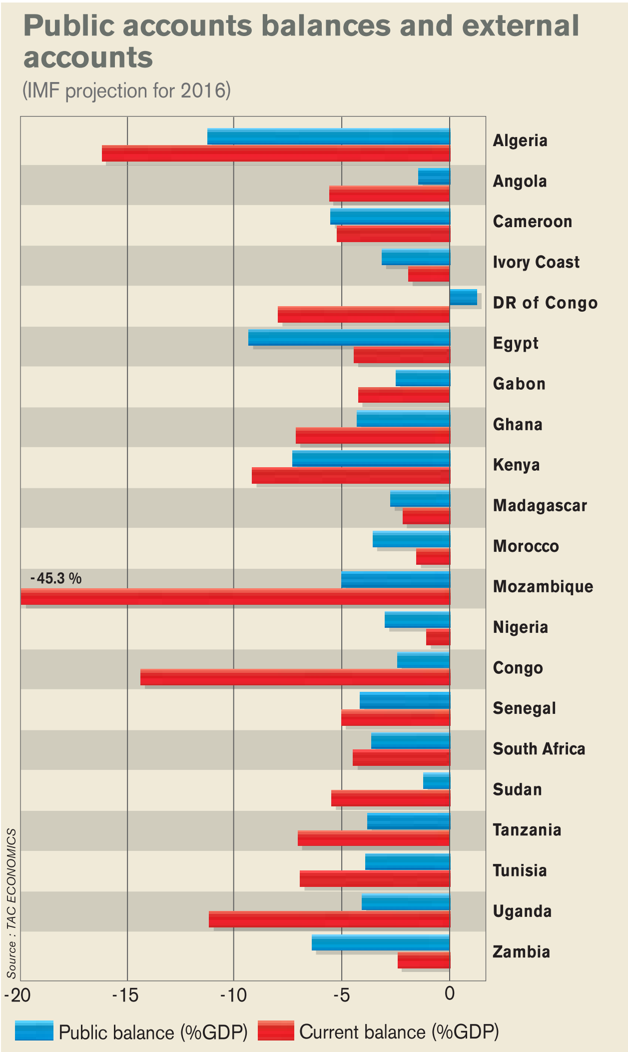
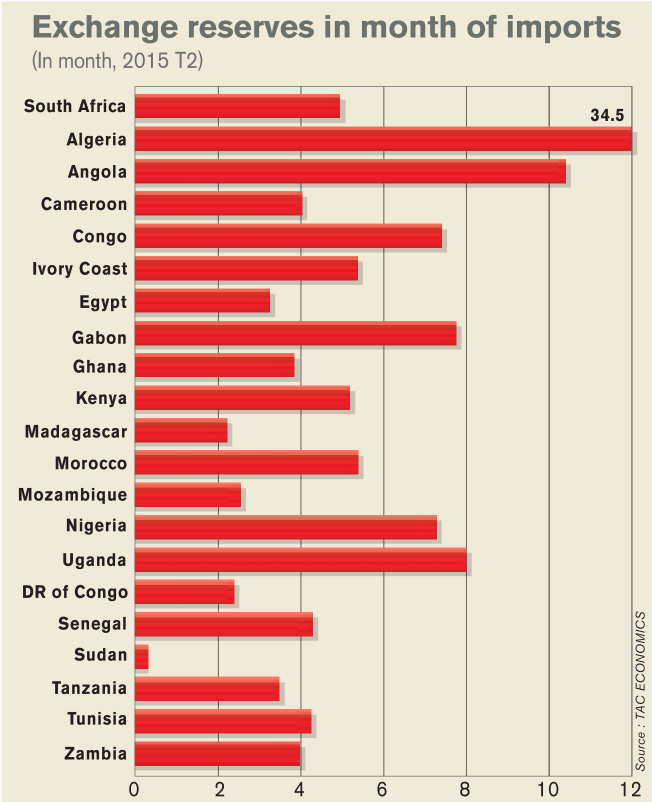


Table 4



Tables : Chantrieux

Among the group of countries that should get through the current turbulent period without too much damage are the Ivory Coast and Morocco, two key partners for French companies

and 4 show the performance of a broad range of African countries in relation to these criteria.

Table 3 presents the forecast figures for 2016 in terms of budget position and the current balance of payments (external trade in goods, services and revenues). The most "resilient" countries are those that have both a government balance and a current account balance in a low deficit situation respectively (e.g. Morocco); on the other hand, the most vulnerable countries are those that have one or two of these balances in a very high deficit situation (e.g. Mozambique).

The second table is linked to the level of exchange reserves held by the central bank (measured in months' imports), as economic resilience in a period of uncertainty, is closely linked to these reserves and to the margins for manoeuvre that they give to the authorities. The countries whose reserves cover less than three months' imports are, by nature, more vulnerable.

We can therefore identify a group of countries that should get through the current turbulent period without too much damage: this includes the Ivory Coast and Morocco, two key partners for French companies.

Conversely, Mozambique and, to a lesser extent, Tanzania both appear to be in a dangerous situation: the former has already asked the IMF for financial support, in November 2015, while the latter should be watched very carefully over the next few quarters. Senegal and Cameroon are less vulnerable but should also be watched as their performance is not convincing. For this group of countries, the combination of constraints is suggestive of acute difficulties in terms of growth in demand and activity… bearing in mind that the current period can also be used for moving into countries and markets, sometimes on more attractive terms than during the period of relative euphoria that is now behind us.

Thierry Apoteker
Chairman, TAC ECONOMICS

The strong impact of falling prices

In 2014, trade between France and Africa was on a slightly downward trend, according to French customs statistics (table opposite): a 2.28% decline in imports from Africa at 26.284 billion EUR, and a slight fall, -0.61%, in French exports (27.448 billion EUR). However, France's trade surplus with Africa improved, from 441M EUR in 2013 to 1.164 billion EUR in 2014.

On the import side, the trend is explained by the fall in the price of oil products and certain ores (manganese for Gabon, uranium for Nigeria). France's leading suppliers still include two major hydrocarbon producers, Algeria and Nigeria, followed by Morocco and Tunisia, whose goods are diversified between agricultural and industrial products. Imports from Angola, mainly hydrocarbons, were up by 70%, compensating for lower imports of crude oil from Libya and Equatorial Guinea.

Concerning exports from France, flows are almost stationary, 0.61% down on 2013. Algeria remains by far France's leading customer on the continent, representing over 22% of French exports to Africa, a rise of 4.3%. The leading French export is cereals, followed by pharmaceutical products and vehicles. Behind Algeria are two other North African countries: Morocco and Tunisia.

French exports to South Africa, the biggest customer in sub-Saharan Africa, rose by 9% in 2014. However, this progression is largely due to the very sharp increase in aeronautical exports (six Airbus A320-200), which doubled to 406 M EUR. If we exclude the aeronautical sector, they fell by 2.8%.

Finally, Egypt took over fourth place from Nigeria with a 17% increase in French exports linked to the resumption of activity in this country.

FRENCH IMPORTS FROM AFRICA
THE TOP 20 SUPPLIER COUNTRIES IN AFRICA IN 2014 (IN EUROS)

	2013	2014	2014/2013 (%)
South Africa	808,770,925	874,834,431	8.17
Algeria	4,241,671,489	4 390,355,379	3.51
Angola	923,112,520	1,565,768,570	69.62
Congo	424,610,182	201,241,335	- 52.61
Ivory Coast	662,778,984	630,232,200	- 4.91
Cameroon	227,638,079	230,758,094	1.37
Egypt	1,196,796,613	1,035,876,359	- 13.45
Gabon	342,527,536	125,119,514	-63.47
Ghana	859,934,276	761,842,049	- 11.41
Equatorial Guinea	1,141,849,118	748,605,327	-34.44
Libya	3,217,685,948	1,859,839,168	- 42.20
Morocco	3,329,790,367	3,622,834,519	8.80
Madagascar	382,180,396	379,433,138	- 0.72
Mauritius	272,717,020	280,112,735	2.71
Namibia	128,812,109	118,684,751	- 7.86
Niger	595,774,643	390,766,474	- 34.41
Nigeria	3,795,827,587	4,115,690,577	8.43
Senegal	90,278,860	82,123,701	- 9.03
Seychelles	120,427,644	103,938,732	- 13.69
Tunisia	3,744,868,509	4,049,819,193	8.14
Total Africa	**27,174,360,773**	**26,284,221,537**	**- 3.28**

Source : French customs

FRENCH EXPORTS TO AFRICA
THE TOP 20 CUSTOMER COUNTRIES IN AFRICA IN 2014 (IN EUROS)

	2013	2014	2014/2013 (%)
South Africa	1,785,528,746	1,946,791,048	9.03
Algeria	5,901,169,885	6,157,295,481	4.34
Angola	461,101,122	769,684,846	66.92
Burkina Faso	332,036,176	269,209,744	- 18.92
Benin	269,158,069	263,659,258	- 2.04
Cameroon	707,462,792	654,189,016	- 7.53
Congo	580 535 135	635,892,211	9.54
Ivory Coast	1,024,747,743	1,064,768,648	3.91
Egypt	1,347,627,927	1,577,381,456	17.05
Gabon	728,111,622	679,724,563	-6.65
Libya	801,166,733	261,069,928	- 67.41
Madagascar	296,328,366	290,960,799	- 1.81
Mali	306,655,593	349,534,635	13.98
Morocco	3,856,138,552	3,777,609,639	-2.04
Mauritius	334,890,141	332,820,309	- 0.62
Mauritania	221,033,837	209,821,226	-5.07
Nigeria	1,520,799,816	1,516,041,893	- 0.31
Senegal	706,037,606	729,083,632	3.26
Togo	397 891 483	730 020 533	83.47
Tunisia	3 702 903 362	3 354 292 397	- 9.41
Total Africa	**27 615 899 859**	**27 448 353 238**	**- 0.61**

Source : French customs